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21 November 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY



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CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

THE MIDDLE EAST CRISIS Page 1

Nasr has stepped up his efforts to force the British, French, and Israelis from his country. Cairo still threatens to accept Soviet "volunteers" and cites promises of Soviet aid. The Israelis maintain their forces in readiness along the Syrian and Jordanian frontiers and continue to stress Soviet influence in Syria.

Political stability in Syria, Iraq, Jordan, and Lebanon is threatened by continuing struggles between pro-Egyptian elements and forces favoring Western ties. A purge of rightists in Syria, appointment of a less pro-British premier in Iraq, and further upheavals in Lebanon are all distinct possibilities. The Jordanian parliament has voted to abrogate the Anglo-Jordanian treaty and establish diplomatic relations with Moscow and Peiping.

Britain and France still express determination to stay in Port Said until international control of the canal is assured. Hammarskjold terms the British and French withdrawal crucial to prevent renewed fighting, which might lead to Soviet intervention, probably through Syria and Jordan. Britain and France may be planning some form of intervention in Syria in connection with a possible partition of Jordan.

The Soviet Union has virtually dropped its threats to send "volunteers" to the Middle East. Moscow is concentrating on strong diplomatic support for the Egyptian and general Arab point of view, and is sending economic aid. Small arms have recently been delivered to Syria, but no military aid is known to have arrived in Egypt since 29 October. The Soviet Union is seeking the withdrawal of all foreign troops--including the UN force--so that it may capitalize on Arab resentment toward Britain, France, and Israel to increase Soviet influence in the area.

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THE WEEK IN BRIEF

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THE SITUATION IN HUNGARY Page 5

Although the general strike in Hungary is apparently being broken by the regime's control of food supplies and mass deportations, the workers continue to show a spirit of resistance. Passive resistance in many forms will probably plague the shaky Kadar regime--already committed to a new deal for workers and peasants--for months to come.

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PART II

NOTES AND COMMENTS

YUGOSLAV-SOVIET RELATIONS STRAINED Page 1

President Tito's accusation that the Soviet leaders are to blame for the troubles in Eastern Europe and Pravda's sharp rejoinder bring the controversy between Belgrade and Moscow to a critical stage. During his exchanges with Soviet party boss Khrushchev last September, Tito reportedly threatened to make public the controversy regarding the interpretation of the "independent roads to socialism" concept unless some compromise was reached.

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THE SOVIET-POLISH COMMUNIQUE Page 2

In signing the communiqué of 18 November with Poland, the USSR has taken a long step forward in meeting Poland's political, military and economic demands. Poland in return has reaffirmed its "alliance" with the USSR and its membership in the socialist camp, and has agreed to the "temporary" stationing of Soviet troops in Poland. It is clear from the communiqué that the Kremlin has accepted Gomulka and his policies and will probably continue to support a national Communist Poland within the framework of the Soviet alliance.

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RUMANIAN INTERNAL DEVELOPMENTS Page 3

Faced with a tense internal situation and hostility among the people, Rumanian leaders have reacted nervously to the Hungarian uprising. The regime has responded to the increasing domestic disaffection with limited measures to improve economic conditions and with promises to consider problems of the ethnic Hungarians in Transylvania. It has maintained tight security measures and party discipline and has summarily dealt with the few overt expressions of discontent.

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USSR OPENS NEW CAMPAIGN TO RECOUP PRESTIGE Page 5

The USSR last week launched what appears to be a major campaign to divert world attention from its setbacks in Eastern Europe and to recapture the diplomatic initiative. The USSR presents itself as the champion of peaceful settlement and restraint in the Middle East crisis while denouncing Britain and France for their action in Egypt. [redacted]

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AFGHAN ARMS DEALS WITH THE SOVIET BLOC Page 6

Afghanistan has concluded arms deals with the Soviet bloc, totaling to date an estimated \$25-30,000,000. [redacted]

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[redacted] It appears likely that the USSR will assume responsibility for development of a new Afghan air force. [redacted]

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RUMORS OF CHANGES IN SOVIET LEADERSHIP Page 7

The continuing ill effects of the Soviet liberalization policy toward the Satellites have put Khrushchev and his close supporters on the defensive and left Khrushchev himself particularly vulnerable. Despite rumors in Moscow of his possible removal as party first secretary, he continues to appear to be the dominant member of the Soviet collective leadership. [redacted]

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POPULAR DISSATISFACTION IN THE SOVIET UNION Page 8

Evidences of dissatisfaction with the policies of the Soviet leadership have appeared among segments of the Soviet public during the past three weeks. The incidents range from relatively mild expressions of sympathy for Hungary to reported demonstrations and rioting in the Lithuanian and Uzbek Republics. [redacted]

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DISORDERS IN NORTH VIETNAM Page 9

Hanoi's recent admission of a "counterrevolutionary uprising" in a predominantly Catholic area near Vinh, as well as the existence of sabotage and "confusion" in a number of other regions, is the frankest acknowledgment to date of the extent of violence against the Viet Minh regime. Hanoi's troops have probably restored order as claimed, but there is little doubt that widespread dissatisfaction continues in North Vietnam. The large regular army, however, should be adequate to maintain order. [redacted]

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LAOS Page 10

Prime Minister Souvanna Phouma's attempt to win cabinet approval for an immediate coalition government with the Pathet Lao has brought the whole issue of a settlement with the Pathet Lao to a critical stage. Despite cabinet opposition, the national assembly seems likely to agree to broadening the cabinet to include Pathet Lao officials. Such a move would deprive the government of its bargaining power and allow the Pathets to oversee a final settlement on terms advantageous to themselves. [redacted]

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NORTH AFRICA Page 10

The French government is increasingly concerned over the possibility that the Suez venture may result in a complete deterioration of its position in North Africa. Little progress has been made in efforts to re-establish relations with Tunisia and Morocco, and Paris is divided on how to achieve an Algerian settlement. Premier Mollet may offer a new proposal on Algeria in the UN General Assembly debate to assuage Moslem opinion.

The Algerian rebels are continuing to maintain a high level of guerrilla activity despite some French military successes. Hostility toward French authority seems to be stiffening among the more conservative Moslems. In Morocco, the exodus of French citizens foreshadows further economic deterioration. [redacted]

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GUATEMALA RENEWS CLAIMS TO BRITISH HONDURAS Page 12

Guatemala's campaign for the "recovery" of British Honduras has been intensified to the point where some Guatemalan officials are urging that the colony be taken by force. While it is unlikely President Castillo Armas will launch precipitous action, he seems to cling to the hope that the United States might be willing to exert pressure on Britain in Guatemala's behalf. [redacted]

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COMMUNIST GAINS IN URUGUAY, BOLIVIA AND PERU Page 13

Communists have registered considerable gains in recent months in their efforts to control Uruguayan labor, and their efforts to infiltrate the Bolivian labor movement have prompted President Siles to undertake a strong anti-Communist program. In Peru, the Communist revival is evident not only on the labor front but also in political activity. [REDACTED]

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PART III**PATTERNS AND PERSPECTIVES****IMPACT OF HUNGARIAN DEVELOPMENTS ON WESTERN EUROPEAN COMMUNIST PARTIES Page 1**

Events in Hungary have severely strained Western European Communist parties. The leadership and "hard core" have continued to support and defend the Soviet intervention, but the rank and file have been badly shaken, there has been a sharp reduction in popular followings, and the Communist hold on organized labor has been weakened. The impact has been the greatest in Italy, Austria, Britain, Switzerland and Denmark, with the least effect apparent in France and in some of the smaller countries. [REDACTED]

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HUNGARIAN ECONOMIC PROBLEMS Page 3

Hungary has faced serious economic difficulties at least since 1952, mainly because its plans called for expansion of heavy industry for which the domestic supply of raw materials was grossly inadequate. Scarcity of consumer goods and lagging agricultural output have resulted in depressed living standards. The almost complete dislocation of the Hungarian economy since 23 October and the long-continued general strike will make extremely difficult the efforts of any Soviet puppet regime to increase output and reduce the discontent of workers and peasants. [REDACTED]

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THE YUGOSLAV ROAD TO SOCIALISM Page 5

The Yugoslav practice of Communism is unique in several ways. In foreign policy, the Yugoslav party accepts collaboration with reformist as well as revolutionary socialists. In domestic policy, it attempts to avoid the rigid bureaucracy of the Soviet system by a thorough decentralization. Workers, in theory at least, manage their own factories, and collectivization has been abandoned in favor of an indirect approach to the socialization of agriculture. These measures have to some extent increased popular initiative and participation in the government. The Yugoslav Communist Party remains, however, in complete control of the state.

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PART I

OF IMMEDIATE INTEREST

THE MIDDLE EAST CRISIS

Egypt

Egypt during the past week further stepped up pressure for the immediate evacuation of British, French and Israeli forces from its territory. Cairo's latest threat, according to press reports, is that Soviet "volunteers" will be "admitted" unless evacuation takes place within a week. Nasr has told the American ambassador, however, that he intends to "go it alone" despite full assurances of help from the USSR. More direct, though perhaps not so effective, pressure has come from the Egyptian military. Fusillades from the Egyptian positions opposite the British and French occupation forces in the canal zone have become more frequent, and the Israelis have asserted that an Egyptian patrol sought to probe their positions in Sinai.

Beirut Meeting

This hardening attitude in Cairo has encouraged similar attitudes in other Arab capitals and has put considerable pressure on those Arab leaders who have shown less than complete devotion to the Egyptian cause. The real object of the Arab heads of state in their meeting in Beirut last week was to try to find a response which the various Arab governments could make collectively in the face of this pressure. The split in the meeting, with Egypt, Syria, and Jordan supporting a diplomatic and economic boycott of Britain and France, while Iraq, Lebanon and a lukewarm

Saudi Arabia opposed drastic measures, demonstrated again the Arabs' inability to act together.

The failure at Beirut has in turn intensified political crises in Syria, where impatience with Arab impotence is most marked, and in Iraq, where most of the population and some army elements suspect that the Nuri Said government is acting as a tool of Britain, and even possibly of Israel.

Syria

In Syria, a purge of conservative elements appears to be in the making.

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Two members of parliament representing the Druze area in southern Syria have already been arrested by the army for complicity in an alleged British plot to stir up a rebellion. Some other rightist party leaders are reported to have decamped temporarily to Lebanon.

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On 17 November the army overawed parliament with a show of force, gathering tanks and personnel carriers near Damascus, and the deputies did not question the army's possible violations of parliamentary immunity. More drastic action by the army to bring about a cabinet change may have been postponed by a promise from President Quwatli that in two weeks he would act to remedy the situation. The leading

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candidate to head a new Syrian cabinet is former prime minister Khalid al-Azm. It was during the period in 1955 when Azm dominated the cabinet that Syria's "drift to the left" gathered most of its momentum.

Iraq

In Iraq, more and more elements of all political stripes are suggesting that Nuri Said give way to a more ostensibly anti-British prime minister. The Iraqi chief of staff has admitted that some junior army officers have been arrested for political agitation, and a large number of civilians are believed to have been jailed during the sporadic anti-British demonstrations of the last three weeks.

Iraq's isolation from the other Arab states, particularly since the creation of the Baghdad pact almost two years ago, has been dramatized and advertised by Nuri's reluctance to make any specific move against his British ally--no oil pipelines have been sabotaged, no supplies denied to Britain by Iraq. At the same time, however, Baghdad is losing some \$23,000,000 a month in oil royalties as a result of the sabotage in Syria, and Nuri's government thus receives neither Arab credit for sabotaging the oil nor Western cash for supplying it. At least one Iraqi politician has warned King Faisal that he is the most likely to be affected by the growing unpopularity of Nuri's government; the king's family advisers have never been reluctant to sacrifice prime ministers when the going became rough.

Jordan-Lebanon

Repercussions of the Beirut meeting have also appeared in Jordan and Lebanon.

The Jordanian parliament on 20 November signified its wish to identify itself with the West's enemies by approving unanimously a recommendation that Jordan abrogate the Anglo-Jordanian treaty and establish diplomatic relations with Moscow and Peiping.

In Lebanon, the Yafi cabinet, which had been the major avenue for Egyptian influence, resigned as a result of President Chamoun's refusal to agree to break relations with Britain and France. Yafi's successor, veteran premier Sami Solh, presumably will seek to follow a more pro-Western policy, and has already announced that the Arabs should put their faith in "the UN and President Eisenhower."

Israel

Israel meanwhile has indicated its terms for the promised withdrawal of its forces from Sinai. In negotiations which began on 20 November, the Israelis stressed that their withdrawal from Sinai should be followed by UN forces taking over key points on the peninsula, with an Egypt-UN agreement for the demilitarization of the peninsula as the next step.

Regarding the Straits of Tiran at the mouth of the Gulf of Aqaba, Israel proposed either that it be left in control, or that the islands of Tiran and

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Sinafir be left empty, or that a UN force occupy the islands. The Israeli position on the ultimate disposition of the Gaza strip, which is not Egyptian territory, is not yet firm, but Israeli spokesmen have indicated their government will probably try to retain the strip permanently. None of these proposals is likely to be acceptable to Egypt, which continues to insist that the role of the UN force is merely to move to the Egyptian-Israeli border with as much dispatch as possible.

The Israelis are maintaining their forces along the Syrian and Jordanian borders and their propaganda continues to stress the dangers of Soviet influence in Syria.

Britain and France

Britain and France evidently still intend to keep their military forces at Port Said until future international control of the canal is assured. They see Nasr's conditional agreement to allow the UN to clear wreckage from the canal as the first step in that direction. London hopes that by continuing the occupation it may be able to promote progress toward the long-range objective of a general Palestine settlement.

Both governments seem somewhat more inclined to avoid an appearance of flouting UN resolutions. Prime Minister Eden and French acting foreign minister Gazier reportedly agreed on 15 November to follow the resolutions "strictly," while giving them the most favorable juridical interpretation from the Anglo-French point of view.

London and Paris may nevertheless be contemplating ignoring the UN by intervening in Syria, outside the UN framework, on the pretext of thwarting Soviet influence there. The Mollet government especially has emphasized a build-up of Soviet arms in Syria. Foreign Minister Pineau told Ambassador Lodge in New York on 14 November that France had two "solutions" in mind. He spoke first of an autonomous Syria under former premier Shishakli, and said that British and French representatives were already in touch with him. A second possibility, according to Pineau, would be the annexation of Syria and northern Jordan by Iraq, and of southern Jordan by Israel.

For France, direct action in Syria would be in keeping with the prevailing despair over the possibility of an economic crisis from oil shortages, over apparent American reluctance to supply European petroleum needs, and over the "disastrous failure" of the Suez venture, which has resulted only in deadlock.

Britain, for its part, is expending considerable effort on salvaging the Baghdad pact. London was encouraged by the inconclusive outcome of the meeting of the heads of Arab states on 13-15 November, and shows no signs of abandoning its long-standing efforts to group the Arab states around Iraq at the expense of Egypt. Britain also shows signs of reviving its suspended campaign to get the United States to assume full membership in the pact.

Eden's illness elevates R. A. Butler, lord privy seal and leader of the House of

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Commons, who will now presumably speak for the government on public occasions. While he has publicly defended recent government policy, Butler has conveyed the impression that he had misgivings about Britain's use of force. Should Eden's illness be protracted, Butler is more likely to become prime minister than Chancellor of the Exchequer Macmillan.

Economic Impact

British officials now assume that the Suez Canal and the IPC pipeline will not be in operation for at least six months. London Treasury officials fear that dollar costs of alternate western hemisphere supplies will accelerate the drain on the sagging gold and dollar reserves. Hints are being dropped that, for the first time since the Conservatives returned to power in 1951, London may seek to defer the approximately \$180,000,000 annual payment on the American and Canadian loans due in December.

UN Emergency Force

Units of the UN emergency force have been ordered to Port Said from their headquarters area near Ismailia. UN secretary general Hammarskjold believes that everything centers around the situation at Port Said. He fears that the British and French will not withdraw, thus precipitating rioting in the area which would provide the British with an excuse for further intervention. Hammarskjold fears that in that event the Soviet Union might intervene through Syria and Jordan.

At present the UN emergency force is composed of troops

from Colombia, Denmark, Finland, India, Norway, Sweden, and Yugoslavia. Canadian forces are to consist of headquarters and service personnel only. Hammarskjold believes, however, that Canadian troops could be used later along the armistice lines, but not in the canal zone.

Hammarskjold believes that Egyptian consent to UN clearance of the canal affords the opportunity to keep the UN emergency force in the canal zone rather than only along the armistice lines. When the UN clearance teams begin work, Hammarskjold plans to request Egypt to agree to having the UN emergency force "police" the clearance work.

The Soviet Union

Through notes to Britain, France and Israel on 15 November and a cessation of talk about volunteers, Moscow has virtually withdrawn its implied threats of force for the time being and returned to the area of diplomacy. Moscow's future tactics probably will be influenced greatly by how quickly and thoroughly the UN emergency force carries out its mission.

The USSR has made it clear that it is solidly behind Egypt's demand that the UN force confine itself to the Egyptian-Israeli border and not the Suez Canal, and that the international force will no longer be necessary after a British-French-Israeli withdrawal.

With regard to Israel, the USSR is insisting that Israeli forces return to the status quo ante, which would mean evacuation of the Gaza strip. Soviet propaganda already has reported that Israel is taking "repressive" measures against Gaza

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residents, and Bulganin, in his note to Ben-Gurion on 15 November, cited Gaza as one of the areas coveted by Israel in its "regional expansionism."

Ambassador Bohlen believes the "volunteer" threat was primarily a propaganda weapon to impress the Arabs and to increase pressure on the British and French on the withdrawal issue. He believes that if the British and French withdraw, the UN police force will then become the chief target of the Soviet campaign. The Arabs will be urged to request the withdrawal of UN forces as an infringement of sovereignty, and Moscow could then, through military assistance, including training of Arabs, try to bring about a conclusive settlement with Israel, and increase its own influence in the area.

In dropping references to volunteers, the USSR probably feels it has achieved full propaganda returns but probably will let the offer stand. Despite the difficulties the USSR might have had in implementing the volunteer offer in substantial numbers, President

Nasr told Ambassador Hare that the Soviet Union would have to comply if Egypt asked for them or "lose face." The amount and types of Soviet equipment captured in Sinai indicate the materiel was not intended as a stockpile for Soviet use in a major Middle East action.

Moscow may now feel that as a result of its strong diplomatic battle on behalf of the Arabs, it is under less pressure to supply arms. No arms shipments are believed to have arrived in Egypt directly from the USSR since 29 October. Bloc ships have continued to deliver arms contracted for earlier this year to Syria. [REDACTED] 25X1

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TASS on 17 November reported that 15,000,000 rubles worth of food, medicines, and hospital equipment is being shipped to Egypt on a Soviet ship. [REDACTED]

(Concurred in by ORR)

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THE SITUATION IN HUNGARY

Although the general strike in Hungary is apparently being broken by mass deportations and workers' fears of extreme privations caused by a complete economic standstill, the workers continue to show a spirit of resistance. Passive resistance in many forms will probably plague the shaky Kadar regime--already committed to a new deal for workers and peasants--for months to come.

Soviet Military Moves

Although almost all organized armed resistance against the Soviet military forces apparently has ceased, the USSR is reportedly sending large numbers of reinforcements into Hungary. These units, primarily rifle (infantry) divisions, may be intended to replace mechanized and tank forces which might be less effective than

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infantry units in combating isolated resistance and providing Soviet control during a military occupation.

This apparent reinforcement of the at least eight Soviet divisions suggests that a withdrawal of Soviet forces is not contemplated for some time to come. The Soviet leaders must be well aware that the restoration of economic and civil order by the Hungarian regime will be a long, slow process. Despite his promises of an eventual Soviet troop withdrawal, Premier Kadar will need Soviet military support at least until the central party and state power have been restored.

Popular Attitudes

Faced with cold and hunger and lacking organization and united leadership, the Hungarian workers have reportedly begun sullenly to return to work. Their spirit, however, apparently has not been broken. Local workers' councils continue to make demands on the regime, and those who return to the factories are reported operating, if at all, only under "slow-down" conditions until their demands--including the right to strike--are met.

Appealing to the workers to return to work, Kadar on 16 November succeeded in gaining partial endorsement of his program from some of their leaders. At the same time, Kadar claimed he was powerless to halt the Soviet deportation program.

The mass of workers reportedly rejected the 16 November appeal from some of their leaders to end the general strike--"firing" the union of-

ficials who made the appeal--but Kadar may have anticipated this reaction. The same day, the regime severely tightened restrictions on food delivery and distribution in Budapest. This move may have been designed to limit food speculation and may have also served as an implied threat to starve recalcitrant workers. Only government food trucks were allowed to enter Budapest, and, according to press reports, private visits to the countryside by individuals were banned, thus limiting the food available to government-controlled outlets and fast-dwindling private stocks.

Kadar's Program

Kadar continues to pledge himself to a liberal and national Communist policy. To a large extent duplicating the early revolutionary promises of ex-premier Nagy, he has confirmed the ouster of 12 leading "Stalinists," reasserted his promises of wage increases and greatly strengthened worker autonomy, and declared himself "in favor" of holding "free and secret" elections in the "near future." He has asked for the participation of minority parties which adhere to the "principles of socialism," and reportedly has been negotiating with Nagy, still in refuge in the Yugoslav embassy in Budapest, and with members of both the Social Democratic and Smallholders Parties.

Although he apparently has failed to win support from these quarters, he may do so if and when some schedule for the withdrawal of Soviet forces can be worked out. Nagy reportedly has dropped his earlier insistence on an immediate withdrawal

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and has agreed to a three-stage evacuation.

Whatever the outcome of the talks with minority party leaders, the regime will probably establish a new "popular-front" type government, using, if necessary, minority party figures who already have compromised themselves with the Communists. Its domestic program--as distinct from the security policies

of the Soviet occupying forces--will probably represent an attempt to parallel many of the policies of the Gomulka regime in Poland. But, unlike the government and party in Poland, the Kadar regime must implement its policies with a shattered and discredited apparatus, in the face of a wrecked economy and a bitter, uncowed population.

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PART II**NOTES AND COMMENTS****YUGOSLAV-SOVIET RELATIONS STRAINED**

President Tito's accusation published on 15 November that the Soviet leaders are to blame for the troubles in Eastern Europe and Pravda's sharp rejoinder bring the controversy between Belgrade and Moscow to a critical stage. During his exchanges with Soviet party boss Khrushchev last September, Tito reportedly threatened to make public the controversy regarding the interpretation of the "independent roads to socialism" concept unless some compromise was reached.

Tito's decision to blast the Soviet leaders probably arose from his belief that they were holding him responsible for the events in Hungary. An article on 8 November in Moscow's Pravda by Yugoslavia's archenemy, Albanian party boss Enver Hoxha, clearly implied that Yugoslavia was to blame. On 10 November a sharp retort appeared in the leading Yugoslav paper Borba. Yugoslav officials regarded the Pravda piece as the views of Soviet leaders themselves.

Tito Speech

Tito denounced all attempts to blame Yugoslavia for the "terrible blow to socialism" which had occurred in Hungary. He laid the blame for this development on the failure of Soviet leaders to go beyond a condemnation of the cult of Stalin to condemn the system which made Stalin possible. Continuation of the system, which Tito said ignores "the strivings of the working masses," has permitted the existence in the USSR and in other Communist parties of elements that are "endeavoring to revive Stalinism

and make it prevail." This, he declared, was the root of their difficulties.

Tito said it was clear from his September talks with Khrushchev that the Stalinist faction had "forced its attitude" on the Soviet party boss "to a certain degree." It also had prevented the joint Soviet-Yugoslav declarations of 1955-1956 "guaranteeing" the right of each state to develop its own brand of socialism from being adopted by the USSR in its relations with all socialist countries. He feels, however, that it is still possible for the "strong" elements in the USSR which desire the abandonment of Stalinist methods in favor of democratization and the "creation of new relations between the socialist states" to triumph.

In an article in Borba on 15 November, Veljko Vlahovic, a top Yugoslav theoretician, strongly supported Tito and, possibly in an attempt to avoid a crisis similar to that of 1948, concluded that mutual criticism need not obstruct Yugoslav-Soviet relations.

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Moscow's initial reaction to the Tito speech was a sharply worded commentary interspersed in a TASS report on the speech that appeared in Pravda on 19 November. Pravda said Tito was

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adopting the propaganda of the "reactionaries" when he attacked the Soviet system for producing Stalinism. Tito was accused of endangering international proletarian solidarity by seeking to classify Communist parties as Stalinist or non-Stalinist at a time when unity was badly needed. He was accused of trying to establish the Yugoslav road to socialism as the only one to be followed by other states, and of interfering in the affairs of other Communist parties.

The exchange has brought Yugoslav-Soviet differences sharply into public focus. In view of the past stubborn refusal of both Moscow and Belgrade to compromise their views, relations between the two capitals will no doubt become further strained. However, the arrival of a Soviet military mission in Yugoslavia and its reception by Tito, and indications that forthcoming Soviet-Yugoslav economic talks will enlarge economic ties, suggest that both sides desire to avoid a break in relations.

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THE SOVIET-POLISH COMMUNIQUE

In signing the communiqué of 18 November with Poland, the USSR has taken a long step forward in meeting Poland's political, military and economic demands. Poland in return has reaffirmed its "alliance" with the USSR and its membership in the socialist camp, and has agreed to the "temporary" stationing of Soviet troops in Poland.

It is clear from the communiqué that the Kremlin has accepted Gomulka and his policies and will probably continue to support a national Communist Poland within the framework of the Soviet alliance. The concessions won by Gomulka will probably ensure his continued popular support, although the Polish people will be skeptical about Soviet willingness to live up to the agreement.

Military Provisions

The communiqué pointed out that the Soviet-Polish alliance is an important factor strengthening the inviolability of Poland's Oder-Neisse frontier. It was agreed that the danger of German militarism threatens this frontier, and renders the "temporary presence of Soviet troops in Poland's territory still expedient." The communi-

qué stressed, however, that the presence of these Soviet troops cannot affect Polish sovereignty nor lead to interference in internal Polish affairs.

The communiqué states that the number, location and movement of such troops are to be determined by special agreement between the two governments. Since Gomulka reportedly is obsessed with the German danger and believes Soviet support is the only guarantee against losing the former German territories, he probably is satisfied that the placing of the troops under a semblance of joint jurisdiction will reduce the irritation felt by the Poles at having Soviet troops in Poland.

Political Provisions

The communiqué alluded to the Soviet declaration of 30 October as being of great importance for the development and strengthening of friendship among socialist countries. It stated that the principles of that declaration are in accord with the policies of the Polish government and with the decisions of the recent plenum of the central committee of the Polish United Workers (Communist) Party. The two governments

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also expressed confidence that their friendship would be strengthened on the basis of "complete equality and respect for territorial integrity, national independence and sovereignty, and noninterference in internal affairs."

Economic Provisions

On Poland's part, the communiqué indicates that Warsaw has obtained credits equal to one half of those granted Poland by the USSR between 1946 and 1955. A Soviet \$175,000,000 long-term credit has been agreed on under which Poland will presumably import consumer goods and raw materials. Warsaw accepted a similar loan for \$25,000,000 in September of this year. Poland has also apparently accepted a Soviet offer to provide 1,400,000 tons of wheat worth at least \$100,000,000

for delivery during 1957.

In addition, on his return to Warsaw, Gomulka stated that the USSR had canceled the \$600,000,000 debt Poland had accrued between 1946 and 1950. This cancellation was effected by raising retroactively the price on Polish coal exported to the USSR. At the time of export, much of this coal had been priced as much as 95 percent below the world market, and the debt cancellation actually constitutes a long-overdue concession.

The communiqué also states that the USSR settled outstanding obligations relating to railway transportation and noncommercial accounts. This suggests that Moscow may now be planning additional payments for services provided by Poland. (Prepared jointly with ORR)

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RUMANIAN INTERNAL DEVELOPMENTS

Faced with a tense internal situation and mounting popular hostility, Rumanian leaders have reacted nervously to the Hungarian uprising. Discontent among Rumanians, who were described as happy about the Polish developments and enthusiastic about the Hungarian revolution, has apparently been heightened by the Soviet intervention in Hungary.

The regime has responded to the rising disaffection with limited measures to improve economic conditions and with promises to consider problems of the ethnic Hungarians in Transylvania, particularly students. At the same time it has maintained tight security measures and rigid party discipline and has summarily dealt with the few overt expressions of discontent.

The American legation in Bucharest does not believe open revolt is imminent but has noted a series of unusual precautions apparently taken by the USSR to lessen the possibility of anti-Soviet demonstrations. Soviet military personnel in Bucharest have reportedly been ordered to remain off the streets, lower-echelon Rumanian personnel employed at Soviet bases have reportedly been fired, and base areas have been declared off-limits to all Rumanians. As reported in Pravda on 10 November, Soviet party boss Khrushchev has acknowledged there has been trouble in Rumania, although he referred to dissidence among Rumanian students in a half-jocular manner, asserting that it could be easily assuaged.

Popular unrest in Rumania has been shown chiefly by workers

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and students--a large number of whom reportedly have been arrested--both in ethnic Hungarian areas and in Bucharest itself, and feeling against the regime has reportedly increased among the peasants. No outdoor festivities were held in connection with the Soviet October Revolution anniversary on 7 November, and teachers have been urged to overload their students with work to occupy their time. Travel by Western attachés has been severely restricted, and frequent checking of identity documents and increased patrolling by police have been noted in Bucharest and other Rumanian cities.

The American legation notes that the regime appears to be operating under strict Soviet supervision while the Rumanian leaders publicly present a united front.

At least some party elements, however, may not be in sympathy with the public line. A private statement to legation officers on 25 October by two Rumanian leaders indicated clear sympathy for the events in Poland and Hungary. An American newspaperman who had reported from Bucharest in early November that some Rumanian leaders favored the developments in Poland and Hungary was immediately requested to leave the country.

Economic Problems

Aggravating the tension and unrest are economic difficulties, including serious food shortages. A drought has curtailed agricultural production, and,

according to the American legation, the poor harvest and hoarding have created scarcities which serve to aggravate already mounting popular hostility. Complaints by the Rumanians have been reported to the effect that produce needed to feed Rumanians was being sent to Hungary for Soviet troops.

Peasants--also short of food--are buying foodstuffs in Bucharest, causing an added drain on insufficient supplies and forcing prices up. The state is apparently making no attempt--or is unable--to meet the stepped-up demand for foodstuffs. Consumer goods production reportedly has been cut back because of unsold stocks, and trouble has been predicted from workers who were subsequently fired.

Some measures have been taken by the regime. The Council of Ministers on 30 October published a decree providing for an immediate increase in minimum monthly wages and an increase in old-age pensions, and inaugurating a new wage system to be extended in 1957 to include all branches of the economy.

Public reaction to these announced wage and pension raises was reportedly a "mixture of cynicism and pleasure."

Possibly as an additional measure to gain popular good will, an agreement was signed in Bucharest on 22 October--and announced on 14 November--transferring to the Rumanian government the Soviet share in the Sovromquartz Company, the last jointly held Soviet-Rumanian enterprise. This concern, which handles Rumania's uranium, is the first such company dealing with uranium to be turned over to Satellite management. (Prepared jointly with ORR)

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USSR OPENS NEW CAMPAIGN TO RECOUP PRESTIGE

The USSR last week launched what appears to be a major campaign to divert world attention from its setbacks in Eastern Europe and to recapture the diplomatic initiative. Soviet leaders appear concerned that the suppression of the Hungarian uprising and the USSR's threatening posture in the Middle East crisis will undermine the Soviet foreign policy line stressing peaceful coexistence and the reduction of tension. They are concerned that these actions will generate fears abroad, particularly in neutralist countries, that this line is being abandoned in favor of a return to a hard Stalinist trend in foreign affairs.

The USSR presents itself as the champion of peaceful settlement and restraint in the Middle East crisis while bitterly denouncing Britain and France for their action in Egypt. This pattern was evident both in the Soviet statement of 17 November on disarmament and the easing of international tension and in Khrushchev's speeches at two diplomatic receptions in Moscow on 17 and 18 November.

The disarmament statement explained that the USSR had chosen this "crucial moment" to appeal for an end to the arms race and the prohibition of nuclear weapons and nuclear tests. A call for a new summit conference to consider the Soviet omnibus disarmament plan and a reaffirmation of the USSR's commitment to the "Leninist policy of peaceful coexistence of states" were accompanied by a pointed reminder of Western Europe's vulnerability to Soviet military power.

The statement contended that if the USSR had in fact been guided by the aggressive intentions of which the West

accuses it, it could have used the present situation for "coming out against the armed forces of the Atlantic bloc and could accomplish the military aims with regard to Western Europe ascribed to it, even without the use of up-to-date nuclear and rocket weapons." The Soviet leaders probably expect this reminder, together with the announcement on 17 November of another nuclear weapon test, to have an inhibiting effect on the actions of Britain and France in the Middle East and to promote neutralism in Europe.

Khrushchev's bitter tirades against the British, French and Israeli actions in Egypt at recent diplomatic receptions apparently were deliberate acts of policy and not merely emotional outbursts by the volatile party first secretary. Ambassador Bohlen reports Khrushchev's insulting speech on 17 November was not impromptu but was read from a prepared text.

At the Polish embassy reception the following night, Khrushchev balanced denunciations of Britain, France and Israel with optimistic and conciliatory remarks on the situation in Egypt. Avoiding any reference to Soviet "volunteers," Khrushchev said the USSR would work for a Middle East settlement because it realized that the situation was serious and that the "fire must be put out."

The only new feature in the disarmament statement was Moscow's expressed readiness to "examine" the question of using aerial photography in the "area of Europe where forces of the Atlantic bloc and Warsaw pact member states are stationed, to a depth of up to 500 miles to the west and east from the border line of the above-mentioned forces."

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This shift on aerial inspection was intended to create the impression that the USSR had made an important concession to the West in an effort to break the deadlock on disarmament, whereas the proposed 500-mile range in fact would cover much of Western Europe but only an insignificant part of the USSR.

The statement's seven-point program was drawn from various Soviet disarmament plans of the past 18 months. Unlike the proposals of 10 May 1955 and 27 March 1956, it makes little pretense of offering a logical and coherent disarmament procedure. The seven points selected were those calculated to produce the most favorable immediate impact on world opinion.

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AFGHAN ARMS DEALS WITH SOVIET BLOC

Afghanistan has concluded arms deals with the Soviet bloc totaling to date an estimated \$25-30,000,000.

that the USSR will assume responsibility for development of a new Afghan air force.

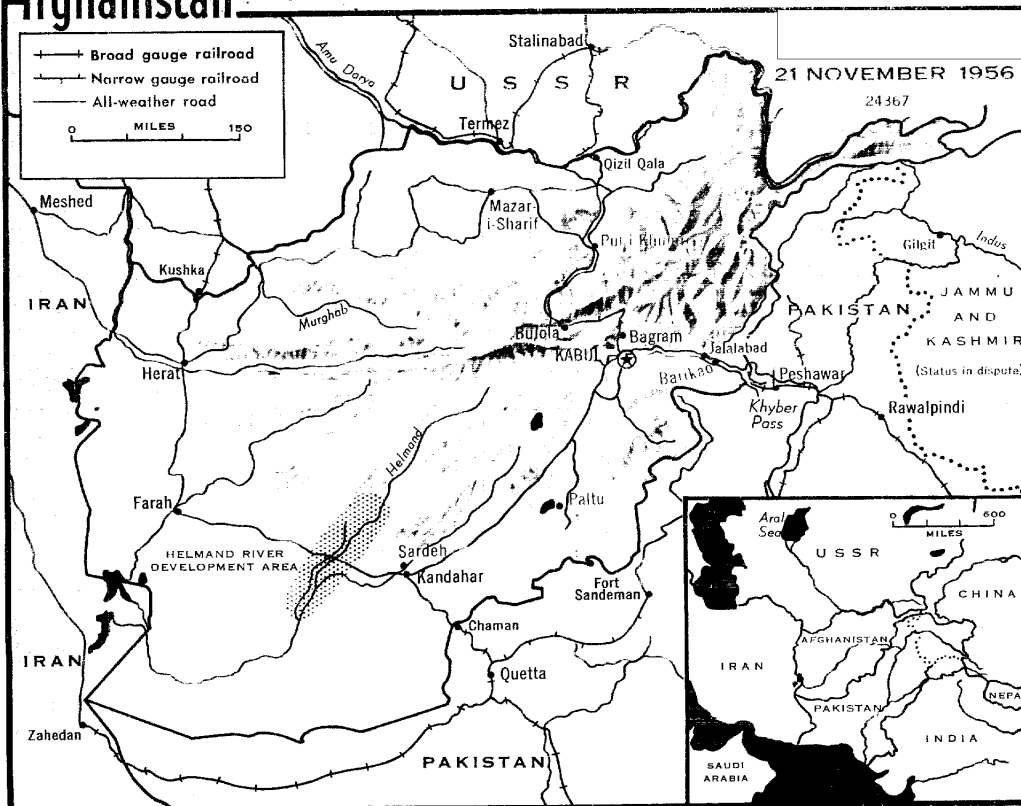
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A considerable amount of ground forces arms and ammunition has arrived in Afghanistan.

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It appears likely

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Afghanistan

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over the past several months, but the most significant build-up has been in aircraft.

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RUMORS OF CHANGES IN SOVIET LEADERSHIP

The continuing ill effects of the Soviet liberalization policy toward the Satellites have put Khrushchev and his close supporters on the defensive and left Khrushchev himself particularly vulnerable to criticism. The American embassy in Moscow has heard rumors that Khrushchev is in trouble and may be removed as party first secretary.

the rumors of Khrushchev's possible removal, however, and he continues to appear to be the dominant leader of the Soviet collective leadership, having been identified as party first secretary in the Soviet-Polish communiqué on 18 November. At the same time, Molotov's speech at a recent meeting of Soviet cultural figures indicates he is still presidium-level overseer of cultural and educational affairs.

Another rumor was that Molotov would become party first secretary, Khrushchev would take charge of agricultural affairs, and Malenkov would be reappointed chairman of the Council of Ministers, replacing Bulganin.

During their visit in Moscow, the Polish leaders held discussions with Khrushchev, Bulganin, Voroshilov, Mikoyan and Saburov. Kaganovich and Molotov were conspicuously absent from the initial 15 November meeting and from the negotiations, appearing only at a luncheon given by Khrushchev, Bulganin and Voroshilov, and at the two final receptions. Malenkov did not appear at any of these functions.

Khrushchev's crude behavior at the two Polish receptions of 17 and 18 November, which caused Western diplomats to walk out on him, suggests some insecurity on his part and a need to impress the other "hard" members of the Soviet leadership. There is no substantial evidence to support

Failure of the Stalinists to participate in the Polish discussions may indicate that they boycotted the talks, that the Khrushchev leadership forced

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them--as possible obstructionists--into the background in order that the discussions could proceed smoothly, or that Gomulka was opposed to their participation. In any case,

the absence of the "Stalinists" from these talks suggests that they have not gained the upper hand at this time.

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POPULAR DISSATISFACTION IN THE SOVIET UNION

Evidences of dissatisfaction with the policies of the Soviet leadership have appeared among segments of the Soviet public during the past three weeks. The incidents range from relatively mild expressions of sympathy for Hungary to reported demonstrations and rioting in the Lithuanian and Uzbek Republics.

Ambassador Bohlen, on the basis of an informal survey conducted by the American embassy in Moscow, believes that the Hungarian revolution and Soviet intervention have made a particularly strong impression on Soviet students and young intelligentsia, of which a substantial portion condemns the Soviet intervention. Before the 4 November crackdown on Hungary took place, students at Moscow University had expressed sympathy for Hungary and pleasure that the Hungarians were asserting themselves.

At a recent lecture on international events at the Lenin Library in Moscow attended predominantly by students, the speaker solicited written questions and received queries, all dealing with Hungary and Poland. The speaker refused to discuss them, whereupon a young man demanded to "hear the truth" about Hungary. When the speaker asked "Does anyone in the audience believe that the Soviet press does not print the truth?" the audience rose, and when the speaker continued to avoid dis-

cussing requested subjects, left the hall en masse.

Students and young intellectuals are probably more perceptive than the average Soviet citizen and their actions more daring, but there is little doubt that Soviet propaganda is failing to convince the people in the freer intellectual atmosphere which has developed since Stalin's death. Soviet leaders have so far shown no inclination to return to repressive measures in dealing with "intellectual curiosity," and in fact sharply criticize the propagandists for failing to provide effective answers.

In some cases popular dissatisfaction has reportedly gone beyond the questioning stage. Fighting touched off by university students carrying anti-Soviet slogans allegedly broke out in Vilnius, capital of Soviet Lithuania, the latter part of October. "Hundreds" reportedly were killed.

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anti-Communist demonstrations occurred two weeks ago in the Lithuanian city of Kaunas, involving up to 30,000 people. The demonstrators carried placards saying "Russians go home, we want better living conditions and open frontiers." There were apparently some clashes with the police, but it is not known whether any casualties resulted.

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There have also been unconfirmed reports of other recent disturbances, including antiregime demonstrations in the Uzbek Republic and a three-day strike in a Moscow ball-bearing plant.

In the "thaw" resulting from the anti-Stalin campaign, somewhat unorthodox activity and expressions of opinion by Soviet citizens are likely to

be tolerated. Demonstrations against Soviet power, however, will certainly be met with strong repressive measures, as was the case in Georgia last March. Continuation of such disturbances will strengthen the hand of Stalinists in top party circles in influencing Soviet policy or bringing about a shift in power within the party presidium.

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DISORDERS IN NORTH VIETNAM

Hanoi's recent admission of a "counterrevolutionary uprising" in several predominantly Catholic villages about 160 miles south of Hanoi, as well as the existence of sabotage and "confusion" in a number of other regions, is the frankest acknowledgment to date of the extent of violence against the Viet Minh regime. Hanoi's troops have probably restored order as claimed, but there is little doubt that widespread dissatisfaction continues in North Vietnam.

According to a Viet Minh broadcast, young men from several villages wounded 10 and captured 28 soldiers and all their arms on 5 November. Hanoi apparently had to send in regular troop reinforcements to effect the release of the captured soldiers. Refugee reports of wanton machine-gunning of entire village populations are unconfirmed. Hanoi admits that troops remain in the area.

The approximately 1,000,000 Catholics remaining north of the 17th parallel have long constituted the most likely center of resistance to Communism in North Vietnam. Hanoi broadcasts earlier this year stated that Catholics had been incited "to fight against the regime" and to commit arson. The Catholics, however, repre-

sent less than 10 percent of the population, and their potential resistance capabilities were greatly reduced when over a half million of the most violent anti-Communists fled to South Vietnam in 1954.

The most recent disorders apparently occurred largely in the rural areas and were inspired mainly by peasant dissatisfaction with Communist tactics in the land reform program. The head of the Canadian delegation to the International Control Commission found no evidence in the city of Hanoi to indicate that any large-scale uprising had taken place. The regular army is apparently loyal to the regime and is probably adequate to the task of suppressing future outbreaks.

Hanoi's admissions substantiate reports of increasing pressure for reform in North Vietnam. Intellectuals and merchants were recently reported to be demanding intellectual freedom, democratization of the government, and a slowdown in collectivization. Reforms along these lines were announced in an early November communiqué of the Council of Ministers, and Hanoi now promises continuing efforts to "correct mistakes" and to "satisfy the aspirations" of the people.

However, with an eye on recent developments in Eastern

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Europe, the Viet Minh leaders apparently intend to implement these promises of democratization with the greatest of caution. While paying lip service to freedom of speech, they at the

same time warn against "any word or deed which is harmful to the people's unity," or "which aims at separating the people from the party and the government...."

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LAOS

Premier Souvanna Phouma's attempt to win cabinet approval for an immediate coalition government with the Pathet Lao has brought the whole issue of a settlement with the Pathets to a critical stage. He reportedly told the cabinet on 15 November that Pathet Lao chief Souphanouvong would guarantee integration of the Pathet Lao army and restoration of royal government authority over the two provinces in return for immediate Pathet Lao participation in the government. The cabinet, which opposed this move since it would deprive the government of all bargaining power with the Pathet Lao, is turning the issue over to the national assembly.

Souvanna believes his proposal is the key to a settlement, and he can be expected to press hard for assembly approval. He has indicated he will resign if

it is rejected. Faced with this prospect, and the popular demand for a settlement with the Pathet Lao, the assembly seems likely to approve the formation of a coalition government, broadening the cabinet to include several Pathet Lao officials, probably including Souphannouvong.

Souvanna's ultimate "act of faith," based on his manifest unwillingness to recognize that the Pathets are Communists, or are Communist-controlled, would place the latter in a position to oversee the conclusion of a settlement on terms advantageous to themselves.

The public would welcome a settlement on Souvanna's terms, and efforts on the part of skeptical officials to secure the government's basic objectives would probably be dismissed as obstructionist.

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NORTH AFRICA

France is increasingly concerned over its position in North Africa, but the Paris government is still groping for a workable policy there. Little progress has been made in efforts to re-establish relations with Tunisia and Morocco, but Premier Mollet may offer a new proposal on Algeria at the General Assembly session.

The fear is now developing that the net result of the Suez crisis will be a further deterioration of the French position throughout North Africa. The need for an acceptable Algerian solution is becoming increasingly pressing if France is to maintain even its present tenuous position in Morocco and Tunisia.

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The French government is divided on how to achieve an Algerian settlement. The acting under secretary for Moroccan and Tunisian affairs contends that the situation is improving and that real progress toward a political solution will be possible in a few weeks. The minister for Algeria is still pushing for military moves to force such a solution, and sentiment in the cabinet reportedly favors one more strong campaign.

At the same time, however, some members of the cabinet have criticized Mollet for not having taken more positive political steps toward a solution. A minority group in the premier's own Socialist Party is pressing for a special party congress to discuss Algerian and Middle Eastern policies.

Despite the difficulties since the Suez crisis, Mollet apparently still hopes to arrange cease-fire talks with Algerian nationalists through indirect channels. The growing belief in France that Mollet's Algerian and Middle Eastern policies have backfired may impel him to try new moves to facilitate such an approach. Concrete results are not likely, however, until after the UN General Assembly debate on the problem, which is expected after Christmas.

A government spokesman has already indicated that Paris hopes to offset UN criticism by seeking immediate ratification of the much-delayed Libyan treaty and by accepting inscription of the Algerian question on the UN agenda--an issue on which the French UN delegation staged a dramatic walkout a year ago.

Meanwhile, Paris has been trying to reverse the sharp

deterioration in relations with Morocco and Tunisia which followed the French seizure of the five Algerian leaders on 22 October. Paris continues to rely largely on financial pressure to bring about negotiations, however, and the American ambassador in Rabat points out that France is not in a position to apply economic pressure without seriously damaging French interests in the area.

In Algeria the rebels are in general continuing to maintain a high level of guerrilla activity despite further French military successes in certain areas. Rural terrorism is apparently leveling off in the Constantine sector but remains undiminished elsewhere. Urban terrorism has increased, especially in Algiers. 25X1

There are signs that hostility toward French authority in Algeria is stiffening among more conservative Moslems who, while in basic sympathy with the aims of the National Liberation Front (FLN), have hitherto given only cautious support. On 15 November, practically all Moslem shopkeepers in Algiers responded to an impromptu strike call issued by the recently formed Moslem Merchants Association and apparently circulated entirely by word of mouth. This protest, which grew out of the association's dissatisfaction with punitive measures being taken by the government against shopkeepers who closed during the 1 November FLN-staged general strike, was the first such collective action to be taken by the Algiers merchants. It may presage closer collaboration with the FLN.

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Algerian residents in Morocco, as far west as Rabat as well as in the Oujda area, are being pressed into providing convalescent and rest facilities to Algerian rebels.

Despite the Moroccan sultan's objections and an American request for delay, the French army in Morocco has begun to build storage facilities on the American wharf at the jointly operated French-American naval air base at Port Lyautey. The Moroccan government informed the United States that it opposed French construction at any American base. The French army recently encountered some difficulty in landing troops

and offloading supplies when Moroccan port workers struck in protest. It probably expects to use the jointly operated bases to avoid similar incidents in the future, and this tactic could provoke serious discord in Moroccan-American relations.

Large numbers of French settlers are leaving Morocco as an aftermath of the recent massacre of some 50 French settlers at Meknes. The exodus is estimated at about 30,000 this month, and may total 100,000, or one third of all French settlers, within a year. The loss of French skills and capital will cause further economic deterioration in the already unbalanced Moroccan economy.

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GUATEMALA RENEWS CLAIMS TO BRITISH HONDURAS

Guatemala's campaign for the "recovery" of British Honduras has been intensified to the point where some Guatemalan officials are urging that the colony be taken by force. The century-old Guatemalan claim has been used by all recent governments to divert public attention from domestic difficulties. For Guatemalans, the "Belize problem" has become a popular symbol of anticolonialism.

resentment in Mexico, which also claims part of British Honduras.

The campaign was renewed late last summer when a group of British Honduran residents of Guatemala petitioned the Guatemalan congress to "make effective" Guatemalan

A statement of Guatemalan sovereignty over the territory is included in the constitution, and Guatemala regularly reasserts its claim at UN and other international meetings. It has gained the support of the other Central American republics and Panama. These moves, however, have aroused much



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sovereignty over British Honduras and to grant the people there representation in the congress. The British chargé d'affaires believes the move was instigated by President Castillo Armas.

On 5 November, an official close to the president expressed serious concern to the American ambassador over the success he thought some members of the government were having in persuading Castillo to seize the colony in an airborne attack. Two days later the ambassador spoke with Castillo and, though he felt he had discouraged precipitous action, he noted that Castillo still hopes the United States might be willing

to exert pressure on Britain in Guatemala's behalf.

Favorable results in the petroleum explorations now beginning in Guatemala's large but undeveloped Peten Department would add increased pressure to the campaign. The natural outlet for this area is through British Honduras. The Guatemalans have not acted on an old British offer of free port facilities at Belize, presumably because they feel acceptance would prejudice their claim.

There is little sympathy for the Guatemalan pretensions in British Honduras, although the largest party there wants eventual independence.

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COMMUNIST GAINS IN URUGUAY, BOLIVIA AND PERU

Marked increases in Communist activities have occurred in Uruguay, Bolivia and Peru. In Uruguay, the Communists have focused primarily on increasing control of labor. In Bolivia, their attempts to infiltrate the powerful labor confederation have sufficiently alarmed President Siles to interest him in developing a strong anti-Communist program. In Peru, the Communist revival is evident not only on the labor front but also in political activity.

Uruguay

In Uruguay, the Communist General Union of Workers (UGT) and its affiliated "independent" unions have outstripped the socialist-controlled Syndical Confederation of Uruguay (CSU) and its satellites--the only important anti-Communist labor organization--in both influence and numbers during the past year. The UGT's gains, particularly in transportation and the civil service, are likely to continue unless government,

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business and the free labor movement take strong counter-measures.

The government, however, is widely believed to have condoned management deals with Communist unions to "break" troublesome non-Communist unions and, as the country's largest employer, is generally regarded in labor circles as blind to the economic plight of the workers. Labor Department and other high officials repeatedly assert that Communism is no danger in Uruguay. Such an attitude has contributed greatly to the momentum of the Communist-backed "unity" or single-federation drive, and the secretary general of the CSU fears his once-dominant organization might be subordinated in a Communist-controlled unified federation.

Communist gains are the result in large part of the new "soft" line, as well as of infiltration and pirating. The Communists established industry-wide co-ordinating committees in 1956 which have avoided politics and posed successfully as defenders of labor's economic interests. These "disinterested" committees have paved the way for the unity movement and the further growth of Communist influence.

Bolivia

Since 1952, organized labor has had greater political influence in Bolivia than in any other Latin American country, and its power has reached a new peak during the past year. Trotskyite Communists wield considerable influence among workers, although they do not dominate the Bolivian Labor Confederation. Recently, they have appeared to be increasing their activity.

Communists may also have been responsible for an attack on 24 October on an American-sponsored group of agricultural technicians.

President Siles is reported deeply concerned over Communist infiltration of labor, and he believes no Bolivian government agency is effectively fighting the Communists. Recently he has indicated considerable interest in establishing a strong anti-Communist program. As a first step, he has appointed his personal secretary as liaison officer with the US embassy in La Paz on anti-Communism, thus replacing an ineffective low-level liaison official.

Peru

Peru's Communist Party, which was badly fragmented by police repression from 1948 to 1955, is successfully emphasizing political activity, and the labor situation is also unusually favorable to party gains.

The Communists have effected a considerable infiltration of the leftist movement of Fernando Belaunde, the runner-up in the presidential election of 17 June and leading advocate of an agrarian reform program. They are also trying to infiltrate APRA, Peru's recently legalized major leftist party. Attacks on APRA leadership and policy by self-styled APRA-Communists are designed to divide APRA prior to its third congress in early 1957.

The party's revitalization and apparent reorganization is likely to lead to the return of

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disident Communists and pro-Communists among the labor leadership. Virtually all Peruvian labor leaders not affiliated with APRA subscribe to Communist ideology, but few in recent years have claimed party membership. At the labor congress last spring, which

re-established Peru's national labor confederation, pro-Communist strength was evident. The group was defeated in the election of officers primarily through APRA control of the credentials committee.

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PART III

PATTERNS AND PERSPECTIVES

IMPACT OF HUNGARIAN DEVELOPMENTS ON WESTERN EUROPEAN COMMUNIST PARTIES

Events in Hungary have strained Western European Communist parties--already divided over the Soviet Union's de-Stalinization program--more than any event since the Soviet-German collusion of 1939. With the possible exception of Norway, the leadership and "hard core" of the Communist parties have stood firmly with the Soviet Union in face of the wave of indignation that has swept Europe.

The use of Soviet troops in Hungary has shocked the rank and file and produced an upheaval among fellow travelers. It has led in many instances to wholesale resignations from the party, shattered the prospects for a united front with the Socialists in several countries, shaken the Communist hold on organized labor, and in almost every case left the Communists politically isolated and with a sharply reduced popular following. In some cases, the party leadership has attempted to stem the demoralization by staging a weak counter-attack against the Anglo-French aggression in the Middle East.

In the early stages of the Hungarian uprising, there were some expressions of support for the Hungarian regime. When Soviet troops moved into Hungary on 4 November, however, the party line began to swing behind the USSR. The London Daily Worker, which had been publishing articles sympathetic to the Hungarians, came out on 5 November with a statement defending the Soviet military action and denouncing "fascist activities." Di Vittorio, secretary general of the Italian General Labor Confederation, after previously condemning Soviet military intervention, was forced on 4 November by the

party hierarchy to recant publicly in a speech supporting the Soviet military action. Only in Norway has the Communist leadership refused to endorse the official Soviet line.

Elsewhere in Europe, the Soviet action and its approval by the local Communist parties set off a wave of public demonstrations against Communist party headquarters and Soviet diplomatic missions. The most pronounced impact has been in Italy, the country with the largest Communist party, and in the UK, while the effect has been least apparent in France and some of the smaller countries.

Italy

The peculiar political situation in Italy has made the Communist Party particularly vulnerable to the Hungarian events. It has widened the ideological disagreement between the party and its Nenni Socialist allies and seems likely to result in breaking the alliance, thereby isolating the party 25X1 completely.

Defections from the Communist ranks have also been

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reported, including 3,000 members of the Italian Labor Confederation who resigned and applied for membership in the center parties. The party is reported to be in a ferment, with many high Communist officials urging a modification of the support for the Soviet line in order to avert further splits.

Outlawing of the Communist Party is under consideration, but legislation to close loopholes in existing laws against Communist activities seems more likely, since drastic action would only cause their disorganized ranks to close.

France

The principal defectors so far appear to be among the influential intellectuals such as Francois Mauriac and Jean-Paul Sartre. The basic solidarity of the party remains unaffected, although four Communist writers have invited party disciplinary action by attacking Soviet intervention in Hungary. The Communist-dominated General Labor Confederation was forced to back down on its support of the party line on Hungary when many of the unions refused to follow it. The confederation's admission of the right of component unions to hold different opinions promises serious organizational troubles in the future. In an attempt to regain some of its lost prestige with the country at large, the confederation has set up its own relief campaign for Hungarian workers.

Britain

The defection of several of Britain's few Communist trade union officials is a serious blow to the British Communist Party. Some of these defectors are now advising the 30,000 party members to turn to the Labor Party as the only

bastion of socialism. As a result of the bitter dissension, a special national party congress has been called, probably for Easter time. Such congresses are normally held every three years, but the last was in April.

Benelux and Switzerland

Public reaction against the USSR and the Communist parties has been extremely violent in the Benelux countries, and the local organizations have probably lost whatever popular following they may have had. The parties are small, the leadership is fanatically Stalinist, and there have been no reports of internal strife among the faithful.

Several prominent Swiss Communists have quit the party, and the party directorate in Basel has denounced the USSR for "violating the rights and independence of socialist states." The party press, however, continues to defend the Soviet intervention.

Scandinavia

American officials in Copenhagen believe the Communist Party there has suffered a severe blow.

The Swedish Communist Party has so far faithfully supported the Soviet action, with only minor indications of dissidence. Two relatively unimportant Communists have left the party in protest against events in Hungary; otherwise there have been no splits comparable to those that have taken place in the Norwegian and Danish Communist parties.

In a foreign policy debate in the Norwegian parliament on 9 November, the Communist Party chairman said the party could not defend the Soviet intervention.

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in Hungary. Three days later the party issued a statement calling for the withdrawal of Soviet forces from Hungary and the admission of United Nations observers into that country.

The Icelandic Communist-controlled labor federation, without criticizing the USSR, has yielded to public opinion to the extent of authorizing contributions to Hungarian relief, but refused to participate in a general work stoppage on 8 November. The party has attempted to utilize the situation in its campaign to oust Americans from the Keflavik air base by calling for a dissolution of such military pacts as NATO and the Warsaw pact and a withdrawal of troops from all foreign bases.

West Germany and Austria

The West German Communist Party was legally banned in August and has apparently gone

underground. Since it is merely an extension of the Communist Party in East Germany, its fate depends largely on developments in the Soviet zone. The Austrian Communist Party has been hard hit by Hungarian developments, and its prospects are now bleaker than ever. The party press has accused the government of unneutral acts in supporting the Hungarian rebels with arms, but the government promptly repudiated these charges and suppressed the major Communist newspaper. There are no official reports of defections, but the press has reported dissension and "passionate debates" at all levels of the party. Tito's recent condemnation of Soviet intervention may further a threatened split between Stalinist and Titoist elements, and such a split would reduce the party to insignificance.

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HUNGARIAN ECONOMIC PROBLEMS

The almost complete dislocation of the Hungarian economy since 23 October and the long-continued general strike will make extremely difficult the efforts of any Soviet puppet regime to increase output and reduce the discontent of workers and peasants, one of the major causes of the revolt against Communist and Soviet domination.

If the program of more liberal economic measures is implemented after Soviet troops restore order, economic concessions would probably be

granted as the least dangerous method of meeting some of the emphatic demands of the Hungarian populace. These concessions would probably take the form of revision in the over-all economic plan, providing for more consumer goods, higher wages, greater worker autonomy and an end to compulsory collectivization.

Scarcity of consumer goods and lagging agricultural output have resulted in depressed living standards. Industrial production, while it has received high priority, is inefficient and costly.

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The Hungarian economy has been engaged in a forced industrialization program imposed by the Soviet Union, and by 1953 this overemphasis on heavy industry had created a serious strain on the economy. By 1953 shortages of raw materials and power had become chronic. Heavy industrial output declined 3 or 4 percent below the 1952 level in 1953 and 1954. In 1955 some recovery of industrial production was achieved through improved management and increased imports of raw materials.

Hungary must import 85 percent of its iron ore and nearly all of its metallurgical coke. Only bauxite--among the nonferrous ores--does it have in sufficient quantity to supply its industrial requirements and provide a surplus for export. Coal and petroleum supplies are normally adequate for internal needs, although temporary shortages have occurred this year. Hungary also lacks timber, pit props, wood pulp, leather, rubber, cotton, pyrites, and many other industrial raw materials.

No rapid improvement in the efficiency of Hungarian industrial production is likely because of obsolete machinery, poor technology, a lack of some types of trained specialists, low worker morale and inexperienced management.

Agricultural Problems

The decline of agricultural production in recent years has added to Hungary's industrial difficulties. Foreign exchange needed for the purchase of vital industrial raw materials was spent on imported grain. Hungary exported grain prior to World War II. Behind the decline in Hungarian food output have been the low rate of investment in farm machinery and

fertilizer and the very unpopular collectivization program.

In 1955, production of major foodstuffs was 92 percent of the prewar average. In 1956, output is expected to be lower than last year because of unfavorable weather conditions, inadequate amounts of chemical fertilizer, and the disruption of farm work by the October revolt.

Standard of Living

The standard of living in Hungary is lower than in Czechoslovakia, East Germany or Poland. Consumer goods are scarce, poor in quality and costly. To reduce imports of raw materials, the regime early this year announced plans to decrease consumer goods production below last year's.

Hungary's average dietary level, in terms of calories, during the past four years has been higher than that of the other Satellites, with the exception of Poland. A preliminary estimate places average per capita food availability for the 1956-57 consumption year (1 July-30 June) at 2,500 calories per day, assuming no appreciable losses from the revolt. This is 5 to 7 percent below last year, the only year that food availability reached prewar (1933-37) levels. However, the quality of the diet continues to be below prewar.

In the immediate wake of the revolution, disruption of the distribution system is causing serious shortages of foods and necessities, especially in Budapest. However, food stocks available from this year's harvest, which was more than three-fourths completed before the revolt began, and relief shipments of food should be adequate to meet the minimum needs of the population. Hungary's original 1956-57 plans

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apparently called for 6 to 8 percent of its food to be imported, principally breadgrains, which accounted for 6 percent of food availability in 1955-56. Also, some sugar and rice were imported.

The shortage of housing depresses the standard of living even more than shortages of food and consumer goods. The present rate of construction is not adequate to maintain even the present number of dwelling units.

Economic Relations With Bloc

After World War II, the Soviet Union became the chief market for Hungarian products and by 1955 accounted for 22 percent of Hungary's total trade. The bloc accounts for about 70 percent of Hungary's total foreign trade.

Each year since 1953 the Soviet Union has granted Hungary a loan to reduce the chronic foreign exchange shortage. The four loans total \$64,000,000.

The most recent loan, for \$25,000,000, was made in October. These loans are not expected to be more than a stopgap for the foreign exchange shortage, which arises from the inefficiency of Hungarian industry.

Hungary is also heavily indebted for the purchase of the four Soviet-Hungarian joint companies from the Soviet Union, Soviet occupation costs and Soviet credits for gold settlement of Hungarian debts. Hungary has agreed to pay Yugoslavia \$85,000,000 in settlement of its reparations debt. The first payment on account to the Soviet Union, 250,000,000 forints (\$20,000,000 at the official rate of exchange), is due in December. Payment is not likely to be made.

Altogether, since the extension of the first Soviet credit to Hungary in 1949, Soviet loans have totaled \$455,000,000, about 8 percent of all Soviet loans to the bloc since World War II.

(Prepared by ORR)

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THE YUGOSLAV ROAD TO SOCIALISM

The Yugoslav practice of socialism is unique in several ways. In foreign policy, the Yugoslavs believe in collaboration with reformist as well as revolutionary socialists. In domestic policy, they are attempting to avoid the rigid bureaucracy of the Soviet system by a thorough decentralization. Workers, in theory at least, manage their own factories, and collectivization has been abandoned in favor of an indirect approach to the socialization of agriculture. These measures have increased popular initiative and participation in the government to some extent. The Yugo-

slav Communist Party remains, however, in complete control of the state.

The regime abolished its ministries and delegated their functions to secretariats, committees, and to regional and lower-level bodies. The national government is now run primarily by a federal executive council. Most legislative bodies are now bicameral--a council of deputies and a council of producers to represent the workers' collectives in industry. As a result, functional control has been replaced by administrative control.

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While the role of the central government in operating economic and social enterprises has narrowed, its ultimate authority remains, in that its laws take precedence over those of all subordinate bodies. It continues to have prime responsibility for the conduct of foreign relations and national defense.

Foreign Policy

Yugoslav Communism, unlike the Soviet doctrine, is heretical, in that it accepts the validity of both reformist and revolutionary socialist theories. The Yugoslavs believe that elements of socialism exist in every country and that socialism of one sort or another will eventually prove the dominating force throughout a world of independent states. Their theoreticians hold that in many countries, particularly advanced Western nations, socialism can be attained by slow evolution, through legal methods and without disrupting the multiparty system. In backward countries, they believe some type of revolution is necessary to overcome retrogressive forces. Thus, they believe Communist countries should develop connections with socialist elements wherever they exist.

These views the Yugoslav Communists wrap up in the expression "active co-existence." A nation must coexist and can, since the coming of socialism is inevitable. A nation must be alert, however, to hasten its advent and oppose

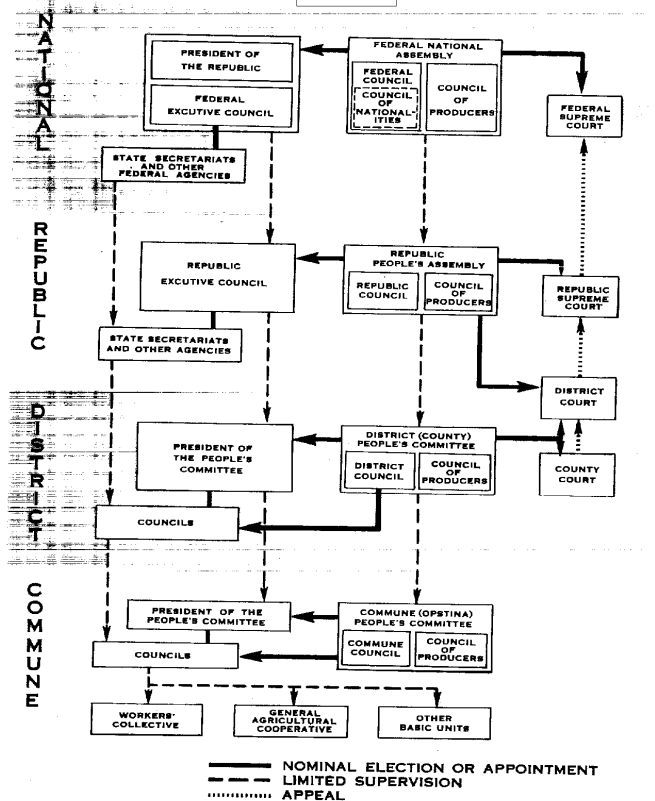
retarding influences--Stalinist in the East or reactionary in the West.

Domestic Policy

The key to domestic policy has been devised by the leading Yugoslav theorist, Vice President Edvard Kardelj. He says "democratic centralism" is necessary to complete the revolution, as long as hostile forces continue strong. When reactionary forces have been overpowered, however, the continuation of extreme centralist control merely leads to the stagnation of a socialist society. A socialist state, when it has become stabilized, must therefore avoid this trap by decentralizing authority, developing initiative, and bringing more and more persons into the governing process.

DECENTRALIZATION YUGOSLAV GOVERNMENT

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Decentralization

Decentralization became the watchword of the Yugoslavs' attempt to discard the Soviet models on which their institutions had been based from 1944 to 1949. The Yugoslavs claim they have rediscovered the true Marxist doctrine.

In the economy, the regime abandoned centralized control of industry. It abolished the old economic ministries (electrification, mining, light industry, heavy industry, agriculture, etc.) and established an elaborate system of policy-making councils, administrative secretariats and corresponding local bodies. These councils supposedly work with a series of elected councils extending down to the workers' council of the individual enterprise. The system's main function theoretically is co-ordination, the power flowing from the bottom up. In practice, it is partially used as a channel to disseminate over-all federal planning goals and economic policy, although regional views are often able to survive the regime's pressures.

The regime also gave up the five-year plans. Belgrade now develops yearly "social plans," essentially an estimate of economic expectations and goals for the year, based on draft plans of individual enterprises. The social plan functions as a mechanism for the over-all distribution of income and for the direction of the flow of investment funds and foreign trade. It does not, however, impose the rigidity of set physical production quotas, budgets, and wages, as does Satellite planning.

Having given up many of the central administrative controls, the regime has resorted to fiscal measures to direct the economy, thus keeping close control over investment funds and credit.

Belgrade still finds it necessary to maintain numerous "chambers," councils, and committees aimed at giving some direction to economic activity. Since practically all key officials throughout the system are loyal Communists, the regime is assured of ultimate control.

This decentralization of economic authority and the establishment of workers' councils have definitely increased initiative and independence of action, if at the same time making the economy somewhat more difficult to control.

Workers' Councils

The most advertised aspect of Yugoslavia's economic decentralization is the delegation of control to the workers within the factories, which, in the Yugoslav Communists' minds, is the key to the development of a proletarian state. Economic enterprises, being "social property," are managed autonomously by the workers' collective--the workers of the enterprise. This right to manage is exercised indirectly through the workers' council as the elected organ of the workers' collective, and the council in turn elects a management board which works with the director of the enterprise. To assure that reliable elements are elected, the workers do not vote for individuals, but choose from among lists of candidates which are drawn up by the trade union organization in the enterprise that sees to it that each list contains party members.

The workers' council supposedly makes decisions concerning all the basic matters of organization and management. It draws up wage and salary scales, approves the economic program for the enterprise,

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decides on the use of "surplus" profits--profits above those planned for the enterprise--and supervises the work of the management board.

The director of the enterprise theoretically represents both the workers and the state. He carries out the decisions of the workers' council and management board, organizes and directs the functioning of the plant, and represents the enterprise in its commercial transactions. He must see that the enterprise operates in accordance with the laws of the state, and may contest any decision taken by the council or board that contradicts those laws. He must submit any such objection to the local commune people's committee or the appropriate governmental body for final decision.

At best, the workers and their council manage the plant only in the most general sense. Day-to-day decisions as well as the organization and running of the enterprise are the prerogative of the director and his technical assistants. The workers do, however, have some power and in a few instances have dismissed unpopular directors. They have also played an important role in the distribution of "surplus" profits, sometimes to the discomfiture of Belgrade or the republic governments, which prefer that the money go into capital investments.

Agriculture

Since 1953, when the regime abandoned its efforts to bring the peasants into collective farms, it has emphasized the development of the general agricultural co-operative as a device to increase production and further agricultural socialization. The co-operatives are concerned with the diversification of economic activities, including trade in manufactured

goods and agricultural produce, credit and saving operations for its members, and even with some production activities. Membership is voluntary, but the regime is using both "carrot and stick" measures to increase peasant participation. The goal is to have most of a village's economic activity, including the sale of the peasant's produce, dependent on the co-operative. In effect, the peasant would be "socialized" while technically remaining in possession of the land.

The agricultural co-operative supposedly functions much like an industrial enterprise, is self-managed and subordinate to the local commune. One important difference, however, is that all of the co-operative's profits are to be used for expanding its capital goods, such as agricultural machinery and the purchase of fertilizers, rather than for increasing peasant income..

The government's agricultural program is still largely in the planning stage, faced with many problems. The regime has not found any way to increase production or peasant deliveries. After trying both, it is uncertain whether high or low taxes promote larger deliveries. It considered increasing the amount of consumer goods available in villages in order to stimulate peasant grain sales, but finally decided it was necessary to curtail peasant incomes in order to check inflation.

Governmental Decentralization

Belgrade has also decentralized the governing process itself.. It has changed the theoretical role of the party, increased the use of the popular front and other mass organizations, and decentralized the governmental structure. The final step in this development was the creation

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in the last two years of the local governmental unit known as the commune.

Belgrade hailed the establishment of the commune system as the second big step toward socialism after the introduction of workers' self-management. In theory, the commune represents the "basic cell of socialist society" and gives the worker the greatest opportunity for direct participation in government by achieving the maximum decentralization possible in a modern state.

In general, districts or counties were cut from 341 to 107, and their "commune" sub-units from 4,121 to 1,121, ostensibly to allow the majority of the new districts and the communes to meet their basic needs out of their own economic resources and to foster stronger self-government. As a result, the governments of the six republics which make up the Yugoslav state--Serbia, Croatia, Slovenia, Montenegro, Bosnia-Herzegovina, and Macedonia--have passed some of their authority to the districts, which in turn have delegated new functions to the communes.

The people in the communes elect by direct vote their own bicameral assembly which in turn oversees various councils for education, internal affairs, economy, banks and roads. The commune's economic council, with the help of the directors and management boards of all the enterprises within the commune's jurisdiction, draw up a social plan for the commune, the first step in the formulation of the national

social plan. At the same time, the commune is responsible for increasing its economic efficiency and "socialist consciousness."

It will be some time before the commune has any real significance as a unit of government, for the system, which is technically in force throughout the country, is plagued by factors such as economic inequalities, local ambitions and a shortage of administrators.

Communism Intact

At the sixth party congress in November 1952, the Yugoslav Communists were told that their party was to assume a guiding rather than governing role in the country. While there has since been much confusion among the cadres as to their actual role, greater use has been made of governmental, as opposed to party institutions, in administration.

However, throughout the period of experimental decentralization of the government and economy there has been little evidence that the power structure of the League of Yugoslav Communists has been altered. The party still reaches down to the most backward commune. Likewise, the Yugoslavs have not sacrificed the basic idea of a Communist society. The Yugoslav theory of self-management still sees the citizen as an integral part of a social whole--society--and not as an individual. His political, economic and social rights exist mainly through the organization of which he is a part.

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